



STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT
ENERGY POLICY DIVISION

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May 19, 2005

Stephen J. Wright
Department of Energy
Bonneville Power Administration
PO Box 3621
Portland OR 97208-3621

Re: P-6

Dear Mr. Wright,

Thank you for the opportunity to comment on the *Draft Closeout Report of the Power Function Review (PFR)*. Our staff has attended almost every meeting of the PFR and has found it be a valuable experience. We commend BPA for spending so much time and effort in providing essential budgetary information about its activities. Overall, the process has increased stakeholder understanding of what BPA spends its money on and what budgetary choices it actually has. At times, too much information was provided, making it hard to separate the high level summaries from the overwhelming detail, but too much information is better than too little.

At the last PFR meeting, Steve Wright asked for comments on whether BPA's draft final report correctly balances long and short term benefits in the way it proposes to spend money during the next rate period. In our view, if we adopt that criterion, the final report is mixed. In some cases, such as funding for the Corps and Bureau or the Debt Optimization program, the agency and its customers will benefit from the proposed actions. In the case of conservation and renewables, on the other hand, BPA is being shortsighted by under-funding these areas now and leaving its customers with fewer resources in the future.

In maintaining funding for the highest priority projects of the Corps and Bureau, BPA is making a commitment to maintain the reliability of the hydro system and to make investments that will enhance the future power output of the system. These are exactly the kind of prudent investments BPA ratepayers ought to make in order to be good stewards of the hydropower resource.

We find a similar situation with the debt optimization program. By working with Energy Northwest, BPA is able to modestly lower its cost of borrowing and thus keep rates lower than they otherwise would be while at the same time increasing the borrowing authority available under its debt ceiling. It is BPA's borrowing authority that enables it to make investments for the future adequacy and reliability of the northwest electricity system.

Given BPA's willingness to spend large amounts of money on the Corps and Bureau projects and withstand considerable political pressure over the debt optimization program, it is puzzling that BPA has been unwilling to maintain proportionate budget levels for conservation and renewables, even though those levels are quite modest. We applaud BPA's willingness to commit to an increase in the amount of conservation it proposes to acquire, but we are puzzled by its reluctance to commit the commensurate funds needed to achieve those higher targets. The Northwest Power and Conservation Council has already commented extensively about the shortcomings of the conservation budget and the premises on which it is based. We agree with the Council analysis and urge you to first, restore the \$5,000,000 cut made in the course of the PFR process, second, add additional funds to increase the probability of achieving your share of the Council targets, and third, include a contingency plan or funding mechanism in case BPA and its utility customers fall short of the conservation targets.

The treatment of renewables in the draft final report raises the same kind of puzzling questions as we discussed regarding conservation. If BPA was willing to spend \$21 million dollars a year in support of renewable energy at the beginning of the PFR process why is it unwilling to do so at the end? Have renewables become a less valuable resource for the future? Has it become less cost-effective to stretch the hydro system by integrating more wind? Has helping its utility customers with their own wind projects become less prudent? Quite, the contrary, it is likely that renewable resources will become a more valuable component of a regional/BPA least cost/least risk portfolio.

CTED supports BPA's continued leadership in expanding the Northwest's renewable power resources. Bonneville has successfully stimulated a wholesale market for renewable resources through its existing Conservation and Renewables Rate Discount Program and it enables new renewable resource development with its continuing efforts to improve transmission development and pricing mechanisms.

We believe it is an essential role for Bonneville to continue, post-2006, its facilitation of new renewable power resources with a rate period investment of \$21 million annually. We support the continuation of the availability of up to \$6 million in renewable funds in the rate discount program. We believe an additional \$15 million dollars in renewable facilitation funding is prudent. Bonneville's own staff and the renewable energy industry can offer the best recommendations on how to prioritize these funds to enhance renewable power development in the Pacific Northwest. We can support a range of ideas such as:

- 1) The analysis and identification of key transmission upgrades necessary to ensure access to large wind resources,

- 2) The analysis and identification of sites where Bonneville can optimize generation and transmission simultaneously by providing incentives to build wind resources in lieu of other costly transmission upgrades.
- 3) The development of a mutual fund or a co-op aggregation role in which Bonneville collects funds from wholesale utilities and manages bulk purchases of renewable resources and may manage resell of tags or power for the wholesale utilities,
- 4) The continuation of storage and shaping services and development of similarly useful services that Bonneville may offer in support of renewable resource development,
- 5) Independent analysis of wind sites and wind resource performance,
- 6) A limited buy-down of the above market incremental costs of distributed generation renewable resources.

In summary, CTED finds much to applaud regarding the entire Power Function Review. It also finds some areas, especially regarding conservation and renewables funding, where BPA appears to be making shortsighted proposals.

We hope our comments have been useful to you as you decide what will go into the BPA cost structure for the next rate case. CTED looks forward to continuing our long-term working relationship.

Sincerely,



Tony Usibelli
Assistant Director

cc: Cindy Custer
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